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Publishers Weekly

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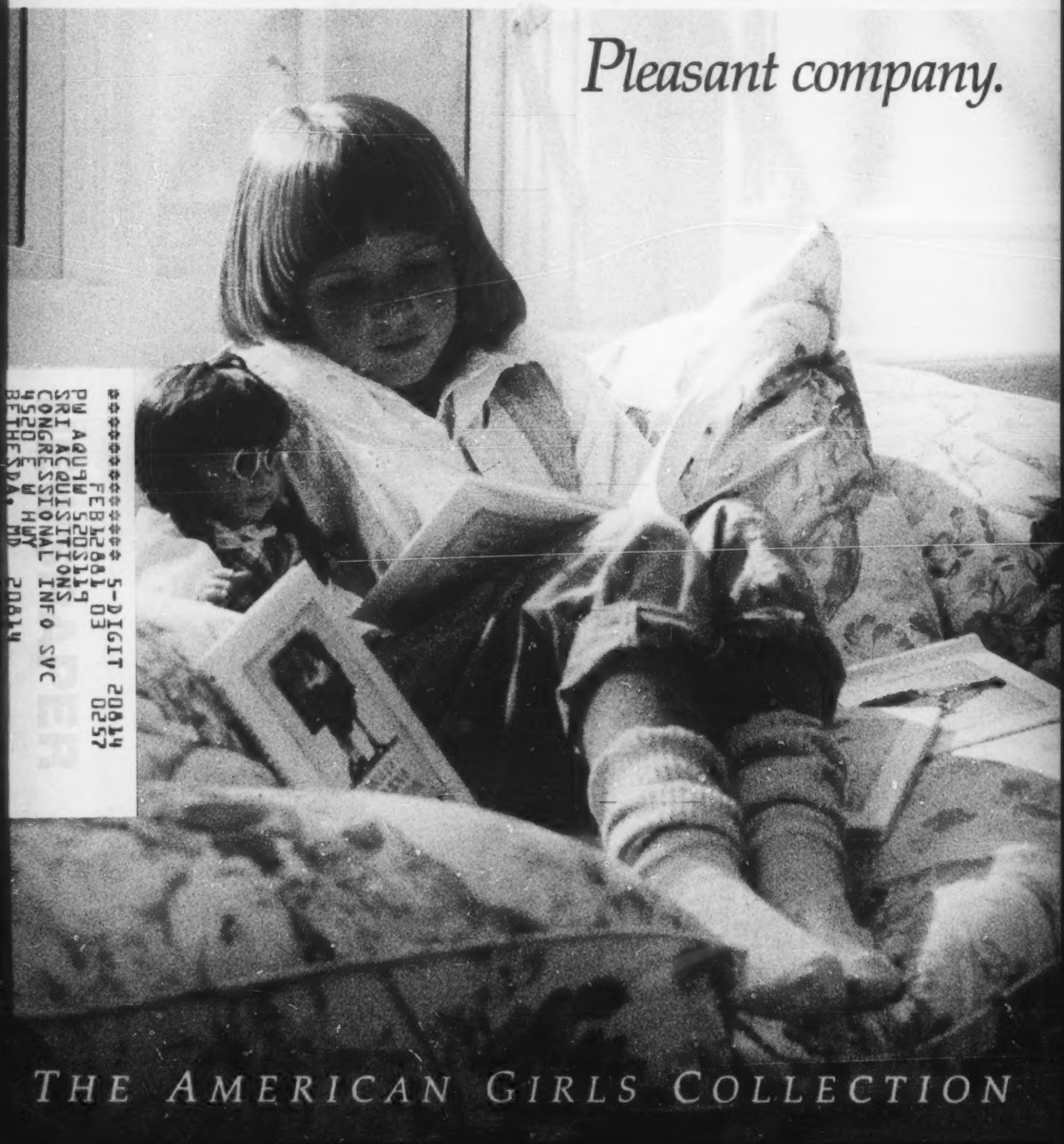

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Bulls, Bears and Book Publishers: Assessing the Damage

Media stocks underperform the Dow, but analysts and publishers remain optimistic

Although book-publishing stocks underperformed the plunging Dow Jones Industrial Average and did not rebound significantly in the week of trading after the October 19 market crash, analysts were relatively unperturbed.

Paine Webber's Kendrick Noble said he was "bullish but with caution." Two factors affect media companies, he said: "Their earnings are relatively consistent but their stocks are thin compared to other industries. So with illiquidity, they get hammered in periods of panic." He pointed out that media stocks were ahead of other industries during the past few months. "With some uncertainty," he said, "our best estimate is that the fourth quarter of this year and the first quarter of next year will be slightly down, but the year as a whole will be up."

Smith Barney's Edward Atorino said, "The world of publishing will not change. The stock market's decline had nothing to do with the business of publishing. These companies are very strong financially and relatively immune to this kind of correction."

In the wake of the crash, some developments were notable:

• Despite the fact that the Haft family, through its Dart Group Corp., suffered a $20 million loss when it sold one-third of its stake in takeover target Dayton Hudson, Robert Haft said the loss did not affect Crown Books, the discount chain he heads. Crown Books is a separate company with separate funds, he said, and in fact "has $30 million in cash in the bank available to open new stores or weather any storm."

He said the company would go ahead with its plans to open 10 stores in the near future and pointed out that the chain had started during the economic troubles of the late '70s. "We have gone through periods of economic uncertainty and done extremely well," he said. "Should the economy change for the worse, we would thrive in that atmosphere."

The stock of Crown Books, which is traded over-the-counter, had a high for the year of 17¼ and a low of 9⅛. It closed October 26 at 9⅛.

• Although analysts were divided on whether the capricious market would dampen the enthusiasm for acquisitions, several pointed to the 7.5% stake in Macmillan acquired October 22 by a group headed by Texan Robert M. Bass. Analysts said it was too early to know if the investment was friendly. The Bass group said its $68 a share purchase amounting to $128.5 million was for investment purposes.

• Analysts also differed on the wisdom of stock buybacks. Of the media companies that announced a stock-repurchase program, McGraw-Hill is believed to have embarked on the largest. On the day after the crash, it said it would buy back up to 2.5 million shares at an estimated price of $130 million. Financing, it said, would come from internally generated funds or from short-term borrowings and the repurchased shares would be "used for general corporate purposes, including issuing shares to employees upon the exercise of stock options."

Ivan Obolensky of Sterling Grace warned that buybacks "may turn out to be a Pyrrhic victory. A buyback beefs up the stock price but it also shrinks liquidity and makes a company less attractive."

Smith Barney's Atorino called the action by McGraw-Hill, regarded as a potential takeover target, "a very sound defensive move." In addition to reducing the shares available to possibly hostile outsiders, he said, it supports the stock price and indicates financial strength. If stock prices stay down, he foresees many more buybacks.

Kevin Gruneich of First Boston said, "The announcement of a buyback is a good move, but I would wait until the market stabilizes before actually doing it. Valuation has gone out the window. A corporation could buy back its stock at $50 a share and see it go down to $45 for no apparent reason."

If interest rates go down, as Gruneich believes they will, a new round of takeovers could be precipitated.

Atorino also predicted "a brand new game of takeovers if stock prices stay low and investors can get financing. But it all depends on what happens when the dust settles."

Harcourt Brace Jovanovich and Macmillan were mentioned as the firms now at greatest risk.

Asked which companies are most likely to fare badly during a tumultuous market, Obolensky said, "Overdiversified and debt-ridden ones. Certain over-diversified communications companies look attractive. But they acquire businesses they can't manage. They hire whiz kids to run them who don't really know how." They also indulge in "romantic accounting" which gives them apparent strength on paper, he said.

Companies apt to fare best during uncertain economic times are educational publishers because the standards by which they are judged, like demographics, aren't linked to the market, Gruneich said. Sales of trade books, on the other hand, are unpredictable and subject to discretionary spending. Already, he pointed out, the number of titles overall has been reduced.

In another view, professional publishers are the most secure, according to Paul Neuthaler, formerly president of the Bertelsmann professional and technical publishing division and, before that, president of Warren, Gorham and Lamont. He is now associated with investor and publisher Theodore Cross and Joseph Palazzolo, presently completing the acquisition

AFTER THE CRASH

How book stocks fared in five days of trading

	52 Weeks as of October 16		Oct. 19	
	High	Low	Crash	Oct. 23
Addison-Wesley (Class B)	61¼	33	51½	46
Grolier	16¾	9¼	9	9⅝
HBJ (common)	13¼	6¾	6	4⅝
(preferred)	11¾	9¼	7⅞	7
Houghton Mifflin	41⅜	27½	30	24⅞
Macmillan	75⅝	39½	55	56¾
McGraw-Hill	84½	54⅛	54	54¾
Time Inc.	116⅞	65⅝	81	82
John Wiley	45½	31½	32¾	30

of Frost & Sullivan.

Professional materials as a rule are more profitable than general trade or school and college books, Neuthaler said. And among professional materials, the most profitable are those in the "hard" regulatory areas like taxation, accounting, law and banking, which are needed by the book-buyer, whatever the economic climate. "When the economy is difficult," he said, "it becomes damn difficult to publish a first novel."

Two trade publishers, both privately owned, stressed the uncertainty of the times but were far from pessimistic. (Publishers whose firms are publicly traded in New York or London did not reply to requests for comment.)

With a much lower anxiety level than heads of public companies, Farrar, Straus & Giroux's Roger Straus Jr. said the wayward market was "a wonderful media event, and I'm not sure but what I like it better than the World Series." Publishers would have to wait and see if the Wall Street turmoil was a "one week's panty raid or longer lasting," he said, and the impact could only be judged if people's buying habits changed.

Even in a recession, he said, he doubted the base market of regular book readers buying two or three books a month would change, even if their lifestyles did and they were forced to forgo a new house or car. "What may be affected is the top of the bestseller list, where you get people buying one or two books a year," Straus said. "I could see them forgoing that megabestseller, but it's hard to see the bread and butter part of the business affected significantly."

Alberto Vitale, head of Bantam/Doubleday/Dell, agreed: "Historically, the book business is antirecessionary. In a recession, people are less prone to buy houses, but they still buy books. Books give a lot of value for the dollar."

—MADALYNNE REUTER
WITH ADDITIONAL REPORTING BY CALVIN REID

Booksellers to Appeal Colorado Obscenity Law

The Mountain and Plains Booksellers Association and five other plaintiffs are planning to appeal an October 6 Colorado District Court ruling upholding the constitutionality of the state's obscenity law.

MPBA president Matt Miller of the Tattered Cover Bookstore in Denver, a plaintiff in the suit, expects the Colorado Supreme Court to rule on the suit in about a year. "This started about six years ago as a juvenile-access law that was found unconstitutional," he said. "The present law is a rewriting of that law replacing the word 'decency' with 'tolerance.' We expect to apply the state constitution, which has a broader definition of freedom of speech than the U.S. Constitution."

The 1986 Colorado law prohibits booksellers from selling materials that do not meet "community standards of tolerance," and enables property owners in the vicinity of the bookstores to seek damages. The plaintiffs charge that these terms are broad and undefinable and therefore restrictive of freedom of expression, particularly under the state constitution.

Judge John N. Mullen of Colorado State District Court, in holding that the law is in accordance with the state and U.S. Constitution, said that the evidence did not indicate that the statute interfered with "the interchange of ideas for the bringing about of political and social change," and that the law is intended to prohibit "hardcore sexual conduct for commercial gain."

Max Lillienstein, American Booksellers Association counsel, told *PW* that the Supreme Court has held that state constitutions can protect speech even in instances where the First Amendment does not. "The significant issue is whether the speech rights in state constitutions can be expanded. The Colorado statute is similiar to obscenity laws that other states have held constitutional under the First Amendment. That's why this appeal is so important."

Avon Announces 'Plus-4,' New Direct Retailer Incentive Plan

Like the Bantam/Doubleday/Dell group, Avon Books is offering all direct retail accounts a new incentive plan.

The program, called "Plus-4," is "an effort to respond to the current needs of an important segment of the bookselling community," according to Avon president and publisher Rena Wolner.

Under the terms of Plus-4, which begins January 1, retailers can earn incentives of up to 4% over the base discounts by improving net unit and dollar sales. A 12.5% improvement will earn the retailer the maximum 4% allowable. For increases in net sales over the retailer's prior two-year average, added discount points will be earned as follows: for increases of 5% to 7.49%, booksellers will earn an additional discount of one percentage point; for increases of 7.50% to 9.99%, two points; for increases of 10% to 12.49%, three points; and for increases of 12.50% or greater, four points.

The incentive base will be calculated using the average of the retailer's net sales with Avon for the prior two years (calendar 1986 and 1987 for the 1988 incentive year). To participate in the program, customers must be established retailers for at least one year. Percentage increases over base will be measured in units or dollars, whichever is lower. Incentive earnings will be credited at the end of the first quarter of the next year (1989).

Accounts will be eligible to participate in the 1988 program provided their return percentage for calendar year 1987 is no greater than 35%; to earn any incentive, an account must maintain a minimum 75% sell-through for calendar year 1988.

Plus-4 is applicable to all Avon books, including trade paperbacks as well as mass market, Avon Flare and Camelot.

News of the move came as *PW* went to press, and there was no opportunity to get comment from the Northern California Booksellers Association on how the new Avon program might affect the NCBA's antitrust suit against the publisher.

Reinhardt Quits CBC with Graham Greene

Max Reinhardt has resigned as chairman of the Bodley Head and as a director of the Chatto, Bodley Head & Cape group in London, recently acquired by Random House, to set up his own line of books. Among the authors he will take with him to Reinhardt Books will be Graham Greene (who has a new novel, *The Captain and the Enemy*, coming out next year), Alistair Cooke and Maurice Sendak.

Reinhardt, who bought the Bodley Head in 1956, said his departure was not related to the takeover by Random House, and that he welcomed the association with the American firm, which he said was a means of giving "proper central management to the whole CBC Group." Reinhardt is reported, nevertheless, to have attempted a management buyout of Bodley Head at the time. In addition to his Reinhardt list, he also will run the Nonesuch Press, in which he has acquired all rights.